

Water Utilities

Price:	\$48.18
Fair Value Estimate:	\$70.00
52-Week Range:	\$30.40 - \$54.52
Market Cap (MM):	11,817
Shr.O/S-Diluted (mm):	245.3
Average Daily Volume:	1,053,887
Book Value:	\$18.90
Dividend:	\$1.00
Yield:	2.1%

FYE: Dec	2020E	2021E	2022E
EPS:	\$1.58E	\$1.67E	\$1.78E
Prior EPS:	NC	NC	NC
P/E Ratio:	30.5x	28.9x	27.1x

Quarterly EPS:

Q1	\$0.60A	\$0.66E	\$0.68E
Q2	\$0.29A	\$0.22E	\$0.25E
Q3	\$0.23A	\$0.26E	\$0.27E
Q4	\$0.46E	\$0.52E	\$0.58E

EPS: adjusted

Quarterly Revenue (M):

Q1	\$256A	\$773E	\$794E
Q2	\$384A	\$342E	\$352E
Q3	\$349A	\$360E	\$370E
Q4	\$541E	\$579E	\$601E
Year:	\$1,530E	\$2,053E	\$2,118E



January 12, 2021

Essential Utilities Inc.

(WTRG) - BUY

Positive Guidance Call Takeaways; Reiterate BUY Rating, \$70 Fair Value

PORTFOLIO MANAGER BRIEF

As the title of our note implies, the key takeaways from WTRG's guidance call for 2021 were all positive. Key areas focused on included earnings (2021 and long-term), capital allocation, emission reduction initiatives, and acquisitions. Given the 2021 EPS guidance range encompassed our pre-existing full year estimate, we've made no changes to our forecasts. We reiterate our BUY rating and \$70 Fair Value on WTRG shares.

ANALYST NOTES

- 2021 EPS Guidance Range Encompassed Street Expectations.** The expected 2021 EPS guidance range of \$1.64 to \$1.69 encompassed 7 of 9 published forecasts in FactSet. The company continues to see a 5-7% CAGR on a go forward basis from 2020 through 2023, and it also reiterated its 2020 adjusted EPS guidance range of \$1.53 - \$1.58. WTRG expects to report 4Q20 and full year 2020 results after market close on 2/24/21.
- Capital Allocation Heavily Tilted to Pennsylvania.** For 2021, the capital budget is \$1 billion, and of that amount, 55% (\$550MM) is slated for water investment, 45% (\$450MM) for gas. However, if we break out the CAPEX in terms of state allocation, it looks like approximately \$875MM of the investment will occur in Pennsylvania, where WTRG gets its highest returns. One slide that caught our attention was #17, which highlights the breakout of pipe replacement through 2023. The acceleration in gas pipe replacement on a percentage basis is well above that of the water business and again is occurring in Pennsylvania.
- Emission Reductions Will Be Sizable.** A fair amount of time was spent on emission reductions (Scope 1 and 2) across all operations. Using 2019 as a baseline, the Company expects a 60% reduction by 2035, and pledged to update stakeholders on the progress towards that goal every 6 months until achieved. Key elements for the gas distribution system include replacing 3,000 miles of leak prone gas distribution pipe, a gathering system repair and replacement program, accelerated leak detection and repair, fugitive gas reinjection during construction, and transitioning to CNG vehicles. For the water and wastewater operations, a commitment to source 100% renewable electricity for the States of Illinois, New Jersey, Ohio, and Pennsylvania by 2022.

- Acquisition Pipeline Remains Strong. Building on 2020's successful acquisition program (12k new customers, \$63MM rate base) in 2021 should be a fairly easy affair, given pending transactions total just shy of 225K customers and \$420MM of rate base. The DELCORA transaction remains the "big prize" with its 198K customers and \$276MM purchase price. The Company expects to close the DELCORA acquisition in 2Q21. WTRG is actively pursuing municipal opportunities totaling 340K total customers.
- Summary/Valuation. On-the-mark guidance, robust capital investment levels, a strong acquisition pipeline, visible earnings growth, aggressive emission reduction targets.....there was a lot more information in WTRG's "guidance call" than we expected. All the news was good and Essential Utilities continues to be our top pick in the water utility sector. Valuation remains compelling; at a P/E of 27x consensus 2022 forecasts, the shares trade 5 turns below the peer group and carry a sector-high dividend yield of 2.08%. We reiterate our BUY rating and \$70 Fair Value, based on a target dividend yield of 1.5% applied to our 2021 estimated dividend of \$1.06.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Michael Gaugler, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Essential Utilities Inc..

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Essential Utilities Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

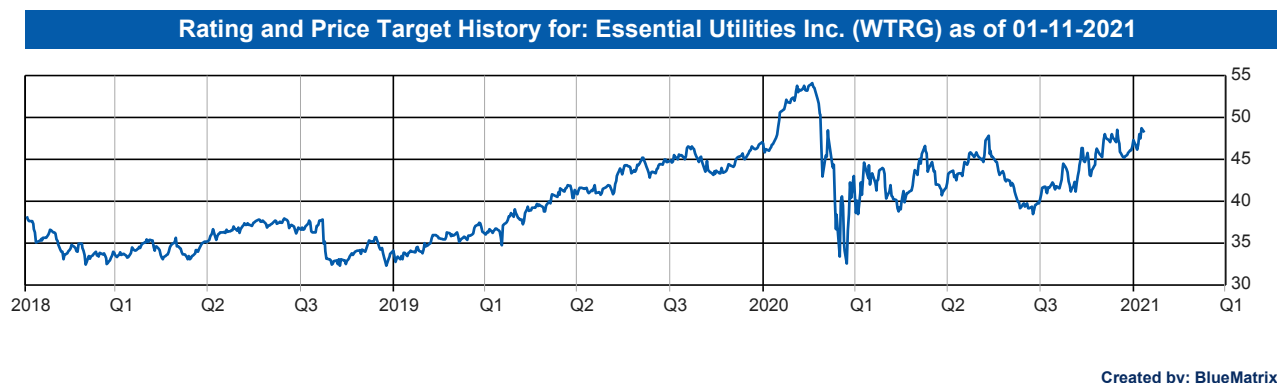
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 12/31/2020

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	115	46.18	27	23.48
NEUTRAL [N]	134	53.82	16	11.94
SELL [S]	0	0.00	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

Janney Montgomery Scott LLC, is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

This report is for your information only and is not an offer to sell or a solicitation of an offer to buy the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal or the entity that provided this report to them, should they desire further information. The information in this report has been obtained or derived from sources believed by Janney Montgomery Scott LLC, to be reliable. Janney Montgomery Scott LLC, however, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Janney Montgomery Scott LLC at this time and are subject to change without notice.

Investment opinions are based on each stock's 6-12 month return potential. Our ratings are not based on formal price targets, however, our analysts will discuss fair value and/or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor's investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst's views. Supporting information related to the recommendation, if any, made in the research report is available upon request.